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State of Montana
Office of the Legislative Auditor
REPORT TO THE LEGISLATURE
MONTANA STATE LIBRARY

Financial-Compliance Audit for the
Two Fiscal Years Ended June 30, 1987

This report contains three recommendations for improvement of the library's operations. The items discussed include compliance with state policy and federal regulations.

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Office of the Legislative Auditor
Room 135, State Capitol
Helena, Montana 59620



FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Office of the Legislative Auditor to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations which could have a significant financial impact. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act of 1984 and OMB Circular A-128 require the auditor to issue certain financial, internal control, and compliance reports regarding the state's federal financial assistance programs, including all findings of noncompliance and questioned costs. The Office of the Legislative Auditor issues a biennial Single Audit Report for the state of Montana which fulfills those requirements on a statewide basis. The audit report presented here is therefore not intended to meet all reporting requirements of the Single Audit Act of 1984 and OMB Circular A-128.

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	Representative Bruce Simon

STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122



SCOTT A. SEACAT
LEGISLATIVE AUDITOR

DEPUTY LEGISLATIVE AUDITORS:

JAMES GILLET
FINANCIAL COMPLIANCE AUDITS

JIM PELLEGRINI
PERFORMANCE AUDITS

LEGAL COUNSEL:

JOHN W. NORTHEY

June 1988

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Montana State Library's financial activity for fiscal years 1985-86 and 1986-87. Included in this report are recommendations concerning compliance with state policy and federal regulations. The library's written response to audit recommendations is included in the back of the audit report.

We thank the State Librarian and the library staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Scott A. Seacat", written over a horizontal line.

Scott A. Seacat
Legislative Auditor

Office of the Legislative Auditor

MONTANA STATE LIBRARY

Financial-Compliance Audit for the
Two Fiscal Years Ended June 30, 1987

Audit staff involved in the Montana State Library audit were:
Joan Anderson, Laurie Evans, Wayne Guazzo, Richard McRae, Lorry Parriman

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APPOINTED AND ADMINISTRATIVE OFFICIALS

STATE LIBRARY COMMISSION

		<u>Term Expires</u>
Mary Hudspeth, Chairperson	Libby	May 1991
C.E. Abramson	Missoula	May 1991
Noreen Alldredge**	Bozeman	March 1989
Victoria Braaten*	Big Timber	January 1989
Martha B. Davis	Dillon	May 1989
Marie Thompson	Billings	May 1990
Dr. Henry McClernan	Butte	May 1990

* Designee of the Superintendent of Public Instruction

** Appointed by the Commissioner of Higher Education from
the Montana University System

ADMINISTRATIVE

Sara Parker	State Librarian
Jacki Wrigg	Accountant

SUMMARY OF AUDIT RECOMMENDATIONS

The following is a listing of recommendations from our financial-compliance audit of the Montana of State Library.

Page

Recommendation #1

The Montana State Library ensure all contracts meet the minimum requirements as required in state policy.

5

Agency Response: Concur. See page 16.

Recommendation #2

The Montana State Library accurately record the receipt and disbursement of federal funds on its accounting records to ensure compliance with federal regulations.

5

Agency Response: Concur. See page 16.

Recommendation #3

The Montana State Library establish procedures to ensure all employees involved in the accounting process are trained in the proper recording of "A" and "B" accruals.

6

Agency Response: Concur. See page 16.

INTRODUCTION

We performed a financial-compliance audit of the Montana State Library (library) for each of the fiscal years ended June 30, 1986 and June 30, 1987. The objectives of the audit were to:

- 1) Determine if the library's financial schedules present fairly the results of operations and changes in fund balance for each of the two fiscal years ended June 30, 1986 and June 30, 1987.
- 2) Make recommendations for improvement in the management and internal controls of the library.
- 3) Determine if the library complied with applicable laws and regulations.
- 4) Determine implementation status of prior audit recommendations.

This report contains three recommendations to the library. These recommendations address areas where the library can improve management, internal control, and compliance with laws and regulations. Other concerns deemed not to have a significant effect on the successful operations of the library programs are not specifically included in the report, but have been discussed with management.

In accordance with section 5-13-307, MCA, we analyzed and disclosed the costs, if significant, of implementing the recommendations made in this report.

BACKGROUND

The Montana State Library is the focal point for the development of library service in Montana. It provides general library services to Montana state government. Also, the library has statutory responsibility for the Natural Resource Information System. The Natural Resource Information System is discussed in more detail later in this report section. The library operates under policies established by the Montana State Library Commission. The commission was created by law in 1929, which are currently codified in Title 22, chapter 1, MCA. The commission consists of seven members as follows: five persons appointed by the Governor; the state Superintendent of Public Instruction or his designee; and a librarian appointed by the Commissioner of Higher Education for the Montana University System.

The 1987 Legislature provided for two major divisions of the Montana State Library. It appropriated funds in two programs: 1) the Library Services Program; and 2) the Natural Resource Information System Program. This consolidated what had formerly been six programs in library services. The State Library divides its library programs into the following functional areas:

Information Resources provides reference information services, lending of materials and interlibrary loan services either directly to users or through academic or public libraries. It also provides centralized library material, acquisition, cataloging and technical processing, and operates the state's documents depository center.

Library Development provides services to Montana libraries to promote the most efficient delivery of library services to the citizens of the state. It provides consulting services to individual libraries, joint planning through statewide committees, coordinates the federation system of libraries and administers state and federal grants to local libraries.

Service to Special Clients provides direct library service to the blind and physically handicapped and helps develop a volunteer service program for readers who cannot use conventional print. It also provides services to residents in custodial or correctional institutions, either directly or through a contract with a local library.

Administration provides central management, federal program administration, centralized fiscal and accounting activities and program-wide services for the State Library.

Natural Resource Information System was established by the 1983 Legislature, and in the 1985 legislative session responsibility for the program was transferred to the Montana State Library. Nine agencies are named by statute to participate in the system, the purpose of which is to provide a comprehensive program for the acquisition, storage and retrieval of existing data relating to the natural resources of Montana. As a part of this information system, the library operates the Montana Natural Heritage program which provides for data relating to the flora, fauna and biological community types of Montana. The Natural Heritage Program is operated through a contract with The Nature Conservancy, which operates Natural Heritage programs in forty-eight states.

Library operations are financed from General Fund appropriations, from federal grants pursuant to the Library Service and Construction Act, and from a portion of the state's Coal Severance Tax. The Natural Resource Information System is funded by revenues received through the Department of Fish, Wildlife and Parks, the Resource Indemnity Trust grant program of the Department of Natural Resources and Conservation, federal grants from the

Office of Surface Mining, and private sources. The library is currently authorized at 31.5 full-time equivalent (FTE) employees. The State Librarian is assisted by 21.5 FTEs in providing library services. Six FTEs operate the Natural Resources Information System. Three FTEs represent administrative staff which assist the State Librarian in providing support for both programs.

PRIOR AUDIT RECOMMENDATIONS

The previous audit of the Montana State Library contained ten individual recommendations. All ten recommendations are still applicable to the library's operations. Nine have been implemented and one partially implemented. The recommendation that has been partially implemented concerns the library's efforts to negotiate an indirect cost recovery rate with the federal government. The library is still in the process of negotiation.

We commend the library for its efforts to improve management and accounting controls and its success in implementing the prior audit recommendations.

CONTRACTED SERVICES

As part of our testing at the Montana State Library, we examined nine contracts. The reason for this examination was due to the interest generated from a performance audit report on the state's contracted services (87P-35) presented to the Legislative Audit Committee in December 1987.

One aspect of our examination was to determine whether the library's contracts met the minimum requirements as outlined by state policy established by the Governor's office. We noted several instances where the minimum requirements for contracts were not met. Some of these items included:

- Not all contracts listed the venue as being the First Judicial District in Lewis and Clark County, Montana. In the event of litigation, if venue were other than Lewis and Clark County, a lawsuit could be tried in another state or distant location increasing the cost of litigation to the State of Montana.
- None of the contracts had a signature indicating the contracts had been reviewed and approved for legal content. An attorney's review of contracts should ensure the interests of the parties are protected and the state's contracting requirements are addressed in the agreement.

- The library intended to establish a contract with an independent contractor; however, the contract did not indicate that the individual was an independent contractor. If the contract does not state that the person is an independent contractor, the individual may be perceived as an employee of the state and could then be entitled to benefits accruing to state employees.
- The same contract noted above did not indicate that the contracted party either had workers' compensation coverage, or proof of exemption from coverage. If the library does not require either proof of coverage or exemption, and the contractor is injured during the performance of the contract, the state could be liable for payment of benefits.
- The ownership of materials was not specified in one contract. The contract should identify which party owns any working papers and/or end product resulting from the contract.
- Some contracts did not specify the name and title of the liaison to whom the contracted party shall report. If the liaison is included in contracts, any questions or concerns encountered in the performance of the contract can quickly be discussed.
- The contracts did not always include a section that stated no assignment, transfer or subcontracting of the contracts could be made unless all parties agreed in writing. Unless the contract specifies that assignment must be agreed upon by the parties in writing, the performance of a contract could be transferred to an unqualified party.
- One of the library's contracts did not mention that modifications should be made in writing. The contracts should indicate that the contract cannot be modified, enlarged or altered except upon written agreement signed by all parties. This puts both parties on notice that modification must be in writing.

Based upon discussions with a library official, the library enters into only 20 to 30 contracts each year. Several years ago a lawyer helped the library formulate contracts, however these contracts have constantly changed and evolved to meet present needs. The library uses the legal services of the Attorney General's Office. Library officials believe it may not be cost beneficial to have legal counsel review each contract. Many contracts are entered into with other state agencies, are for small dollar amounts, or involve the subgranting of federal funds for library service and construction grants. Library personnel indicated that library service and construction contracts are governed by specific mandates from the federal government.

Because library service and construction contracts frequently involved significant dollar amounts and/or are technical in nature, approval for legal

content is important. Also, a legal review could help the library ensure compliance with the minimum contract requirements discussed above. One way the library can reduce the cost of legal reviews would be to use a form contract which has been approved for legal content. Other contracts with state agencies or outside parties should be evaluated to determine if the nature of the contract requires legal review.

RECOMMENDATION #1

WE RECOMMEND THE MONTANA STATE LIBRARY ENSURE ALL CONTRACTS MEET THE MINIMUM REQUIREMENTS AS REQUIRED IN STATE POLICY.

FEDERAL COMPLIANCE

During fiscal year 1986-87, the library requested a Letter of Credit cash drawdown of funds from the federal government for the Library Service Construction Act Title I grant (CFDA #84.034). Rather than recognizing revenue for the amount of the cash drawdown, library personnel improperly recorded an expenditure reduction. Federal regulations require that the receipt and disbursement of federal funds be accurately and completely disclosed on the state's accounting records. Library officials stated that an accounting error caused the drawdown to be improperly recorded. By recording the cash drawdown in this manner, both revenue and expenditures are understated by \$6,069 on the library's accounting records. Although this transaction caused an error on the state's accounting records, we found the library properly reported the receipt and disbursement of these funds on its quarterly Federal Cash Transaction Reports.

RECOMMENDATION #2

WE RECOMMEND THE MONTANA STATE LIBRARY ACCURATELY RECORD THE RECEIPT AND DISBURSEMENT OF FEDERAL FUNDS ON ITS ACCOUNTING RECORDS TO ENSURE COMPLIANCE WITH FEDERAL REGULATIONS.

EXPENDITURE ACCRUALS

The library improperly classified several expenditure accruals during the fiscal year-end period of 1985-86. Proper classification is important because it allows the state to prepare its annual financial report in accordance with generally accepted accounting principles.

State accounting policy requires that expenditure accruals be classified as either "A" or "B". An "A" accrual indicates that goods or services will be received by the state after June 30. A "B" accrual is made when goods or services have been received by the state before June 30. We found that 15 library accruals, ranging from \$125 to over \$25,000, were improperly coded as "A" accruals rather than "B."

Annually the Department of Administration Accounting Division issues a memorandum that explains the difference between "A" and "B" accruals. Library personnel indicated that the expenditure accrual documents were prepared by an employee who was relatively unfamiliar with the procedure. The library should establish procedures to ensure all personnel preparing and authorizing accrual documents are familiar with the classification requirements.

RECOMMENDATION #3

WE RECOMMEND THE MONTANA STATE LIBRARY ESTABLISH PROCEDURES TO ENSURE ALL EMPLOYEES INVOLVED IN THE ACCOUNTING PROCESS ARE TRAINED IN THE PROPER RECORDING OF "A" AND "B" ACCRUALS.

AUDITOR'S OPINION LETTER
AND AGENCY FINANCIAL SCHEDULES

SUMMARY OF AUDIT OPINION

The auditor's opinion issued in this report is intended to convey to the reader of the financial schedules the degree of reliance which can be placed on the amounts presented.

Based on the auditor's opinion on page 7, the reader may rely on the fairness of the amounts presented on these schedules prepared from the Statewide Budgeting and Accounting System when analyzing the library's operations.

STATE OF MONTANA
Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122



LEGISLATIVE AUDITOR:
SCOTT A. SEACAT

LEGAL COUNSEL:
JOHN W. NORTHEY

DEPUTY LEGISLATIVE AUDITORS:

MARY BRYSON
Operations and EDP Audit

JAMES GILLETT
Financial-Compliance Audit

JIM PELLEGRINI
Performance Audit

The Legislative Audit Committee
of the Montana State Legislature:

We have examined the financial schedules of the Montana State Library for each of the two fiscal years ended June 30, 1986 and 1987 as shown on pages 8 through 14. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The library's financial schedules are prepared in accordance with the basis of accounting described in Note I to the financial schedules. Accordingly, the accompanying financial schedules are not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

In our opinion, the financial schedules referred to in paragraph one present fairly the results of operations and changes in fund balances of the Montana State Library for each of the two fiscal years ended June 30, 1986 and 1987, in conformity with the basis of accounting described in Note I applied on a consistent basis.

Respectfully submitted,

A handwritten signature in black ink that reads "James Gillett".

James Gillett, CPA
Deputy Legislative Auditor

April 1, 1988

MONTANA STATE LIBRARY
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1987

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Expendable Trust Funds</u>
FUND BALANCE: July 1, 1985	\$ <u>-0-</u>	\$ <u>(433,760)</u> ¹	\$ <u>2,180</u>
ADDITIONS			
<u>Fiscal Year 1985-86</u>			
Support From State Of Montana	534,149		
Budgeted Revenue & Transfers In		910,940	
Cash Transfers In		458,744 ¹	
<u>Fiscal Year 1986-87</u>			
Support From State Of Montana	508,860		
Budgeted Revenue & Transfers In		794,246	
Cash Transfers In		757,891 ¹	
Prior Year Revenue Adjustments		<u>106</u>	
Total Additions	<u>1,043,009</u>	<u>2,921,927</u>	
REDUCTIONS			
<u>Fiscal Year 1985-86</u>			
Budgeted Expenditures	542,294	1,276,872	
Prior Year Expenditure Adjustments	(8,145)	(329)	
Nonbudgeted Expenditures			534
<u>Fiscal Year 1986-87</u>			
Budgeted Expenditures	509,595	1,130,618	
Prior Year Expenditures		(6,216)	
Prior Year Expenditure Adjustments	(735)	64,782	
Nonbudgeted Expenditures			<u>1,646</u>
Total Reductions	<u>1,043,009</u>	<u>2,465,727</u>	<u>2,180</u>
FUND BALANCE: June 30, 1987	\$ <u>-0-</u>	\$ <u>22,440</u>	\$ <u>-0-</u>

¹ See footnote 5 on page 14.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 12 through 14.

MONTANA STATE LIBRARY
SCHEDULE OF BUDGETED REVENUE & TRANSFERS IN - ESTIMATED & ACTUAL
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1987

	<u>Charges For</u> <u>Services</u>	<u>Grants,</u> <u>Contracts,</u> <u>Donations</u>	<u>Other</u> <u>Financing</u> <u>Sources</u>	<u>Federal</u>	<u>Total</u>
<u>Fiscal Year 1986-87</u>					
SPECIAL REVENUE FUND					
Estimated Revenue	\$83,212	\$ 132,585		\$ 910,738	\$ 1,126,535
Actual Revenue	<u>82,706</u>	<u>123,177</u>		<u>588,363</u>	<u>794,246</u>
Collections Over					
(Under) Estimate	\$ <u>(506)</u>	\$ <u>(9,408)</u>		\$ <u>(322,375)</u>	\$ <u>(332,289)</u>
<u>Fiscal Year 1985-86</u>					
SPECIAL REVENUE FUND					
Estimated Revenue	\$78,000	\$ 373,901	\$75,000	\$ 687,439	\$ 1,214,340
Actual Revenue	<u>77,415</u>	<u>75,140</u>	<u>75,000</u>	<u>683,385</u>	<u>910,940</u>
Estimate Over					
(Under) Actual	\$ <u>(585)</u>	\$ <u>(298,761)</u>	\$ <u>(-0-)</u>	\$ <u>(4,054)</u>	\$ <u>(303,400)</u>

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 12 through 14.

PERSONAL SERVICE

Salaries
Other Compensation
Employee Benefits
Total

OPERATING EXPENSES

Contracted Services
Supplies & Materials
Communications
Travel
Rent
Repair & Maintenance
Other Expenses
Total

EQUIPMENT AND

Equipment
Intangible Assets
Total

GRANTS

From State Sources
From Federal Sources
Total

TOTAL PROGRAM EXPENSES

GENERAL FUND

Budgeted
Actual
Unspent Budget

SPECIAL REVENUE

Budgeted
Actual
Unspent Budget

This schedule is
in the notes to

MONTANA STATE LIBRARY
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES BY OBJECT AND FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1987

	Reference/ Information Service	Library Development	Institutional Library Service	Physically Handicapped Service	Administration	Technical Services	Natural Resources/ Heritage	Total
PERSONAL SERVICES								
Salaries	\$108,691	\$ 67,341	\$19,730	\$ 84,474	\$ 84,071	\$ 88,532	\$ 43,858	\$ 496,697
Other Compensation					2,900			2,900
Employee Benefits	<u>20,933</u>	<u>14,309</u>	<u>4,111</u>	<u>18,595</u>	<u>18,327</u>	<u>21,076</u>	<u>9,098</u>	<u>106,449</u>
Total	<u>129,624</u>	<u>81,650</u>	<u>23,841</u>	<u>103,069</u>	<u>105,298</u>	<u>109,608</u>	<u>52,956</u>	<u>606,046</u>
OPERATING EXPENSES								
Contracted Services	37,017	22,401	8,275	3,083	5,307	23,669	161,814	261,566
Supplies & Materials	2,141	2,822	156	6,919	1,144	2,227	1,603	17,012
Communications	1,502	8,944		4,819	4,782	7,962	7,515	35,524
Travel	1,669	9,895	1,141	1,682	14,684	1,303	4,802	35,176
Rent	90,636	672		22,246	300	5,156	1,200	120,210
Repair & Maintenance	1,156	23	23	550	700	269	540	3,261
Other Expenses	<u>1,964</u>	<u>2,928</u>	<u>553</u>	<u>339</u>	<u>1,877</u>	<u>142</u>	<u>337</u>	<u>8,140</u>
Total	<u>136,085</u>	<u>47,685</u>	<u>10,148</u>	<u>39,638</u>	<u>28,794</u>	<u>40,728</u>	<u>177,811</u>	<u>480,889</u>
EQUIPMENT AND INTANGIBLE ASSETS								
Equipment	89,029	5,030	9,482	18,519	95	111	4,864	127,130
Intangible Assets				<u>338</u>				<u>338</u>
Total	<u>89,029</u>	<u>5,030</u>	<u>9,482</u>	<u>18,857</u>	<u>95</u>	<u>111</u>	<u>4,864</u>	<u>127,468</u>
GRANTS								
From State Sources		265,856						265,856
From Federal Sources		<u>159,954</u>						<u>159,954</u>
Total		<u>425,810</u>						<u>425,810</u>
TOTAL PROGRAM EXPENDITURES	<u>\$354,738</u>	<u>\$560,175</u>	<u>\$43,471</u>	<u>\$161,564</u>	<u>\$134,187</u>	<u>\$150,447</u>	<u>\$235,631</u>	<u>\$1,640,213</u>
GENERAL FUND								
Budgeted	\$253,435	\$ 31,870	\$10,489	\$ 36,463	\$ 99,158	\$ 82,199		\$ 513,614
Actual	<u>252,756</u>	<u>31,303</u>	<u>9,676</u>	<u>35,200</u>	<u>98,461</u>	<u>82,199</u>		<u>509,595</u>
Unspent Budget Authority	<u>\$ 679</u>	<u>\$ 567</u>	<u>\$ 813</u>	<u>\$ 1,263</u>	<u>\$ 697</u>	<u>\$ -0-</u>		<u>\$ 4,019</u>
SPECIAL REVENUE FUND								
Budgeted	\$103,511	\$916,853	\$33,795	\$126,364	\$ 35,726	\$ 68,248	\$385,076	\$1,669,573
Actual	<u>101,982</u>	<u>528,872</u>	<u>33,795</u>	<u>126,364</u>	<u>35,726</u>	<u>68,248</u>	<u>235,631</u>	<u>1,130,618</u>
Unspent Budget Authority	<u>\$ 1,529</u>	<u>\$387,981</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$149,445</u>	<u>\$ 538,955</u>

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 12 through 14.

PERSONAL SERVICES

Salaries

Employee Benefi

Total

OPERATING EXPENSE

Contracted Serv

Supplies & Mate

Communications

Travel

Rent

Repair & Mainte

Other Expenses

Total

EQUIPMENT AND INT

Equipment

Total

GRANTS

From State Sour

From Federal So

Total

TOTAL PROGRAM EXP

GENERAL FUND

Budgeted

Actual

Unspent Budget /

SPECIAL REVENUE FI

Budgeted

Actual

Unspent Budget /

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MONTANA STATE LIBRARY
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES BY OBJECT AND FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1986

	Reference/ Information Service	Library Development	Institutional Library Service	Physically Handicapped Service	Administration	Technical Services	Natural Resources/ Heritage	Total
PERSONAL SERVICES								
Salaries	\$128,978	\$ 58,799	\$27,784	\$ 84,702	\$ 86,068	\$ 79,552	\$ 21,699	\$ 487,582
Employee Benefits	<u>26,822</u>	<u>11,785</u>	<u>4,735</u>	<u>18,089</u>	<u>18,153</u>	<u>17,398</u>	<u>4,123</u>	<u>101,105</u>
Total	<u>155,800</u>	<u>70,584</u>	<u>32,519</u>	<u>102,791</u>	<u>104,221</u>	<u>96,950</u>	<u>25,822</u>	<u>588,687</u>
OPERATING EXPENSES								
Contracted Services	30,324	21,474	10,648	2,796	18,486	23,555	112,788	220,071
Supplies & Materials	2,419	1,705	76	2,568	924	2,072	4,301	14,065
Communications	3,234	8,606		4,389	5,212	7,458	1,297	30,196
Travel	1,955	10,688	434	2,413	14,615	1,094	2,245	33,444
Rent	96,374		10	22,507	46		1,598	120,535
Repair & Maintenance	1,544	441	112	1,851	1,222	101	418	5,689
Other Expenses	<u>2,126</u>	<u>774</u>	<u>667</u>	<u>342</u>	<u>1,936</u>		<u>473</u>	<u>6,318</u>
Total	<u>137,976</u>	<u>43,688</u>	<u>11,947</u>	<u>36,866</u>	<u>42,441</u>	<u>34,280</u>	<u>123,120</u>	<u>430,318</u>
EQUIPMENT AND INTANGIBLE ASSETS								
Equipment	<u>83,860</u>		<u>9,049</u>		<u>202</u>	<u>9,030</u>	<u>11,943</u>	<u>114,084</u>
Total	<u>83,860</u>		<u>9,049</u>		<u>202</u>	<u>9,030</u>	<u>11,943</u>	<u>114,084</u>
GRANTS								
From State Sources		360,672						360,672
From Federal Sources		<u>325,405</u>						<u>325,405</u>
Total		<u>686,077</u>						<u>686,077</u>
TOTAL PROGRAM EXPENDITURES	<u>\$377,636</u>	<u>\$ 800,349</u>	<u>\$53,515</u>	<u>\$139,657</u>	<u>\$146,864</u>	<u>\$140,260</u>	<u>\$160,885</u>	<u>\$1,819,166</u>
GENERAL FUND								
Budgeted	\$269,809	\$ 34,864	\$13,063	\$ 54,623	\$109,317	\$ 61,891		\$ 543,567
Actual	<u>269,311</u>	<u>34,657</u>	<u>13,023</u>	<u>54,545</u>	<u>109,018</u>	<u>61,740</u>		<u>542,294</u>
Unspent Budget Authority	<u>\$ 498</u>	<u>\$ 207</u>	<u>\$ 40</u>	<u>\$ 78</u>	<u>\$ 299</u>	<u>\$ 151</u>		<u>\$ 1,273</u>
SPECIAL REVENUE FUND								
Budgeted	\$111,829	\$1,082,119	\$40,522	\$ 85,306	\$ 37,963	\$ 83,509	\$457,913	\$1,899,161
Actual	<u>108,325</u>	<u>765,692</u>	<u>40,492</u>	<u>85,112</u>	<u>37,846</u>	<u>78,520</u>	<u>160,885</u>	<u>1,276,872</u>
Unspent Budget Authority	<u>\$ 3,504</u>	<u>\$ 316,427</u>	<u>\$ 30</u>	<u>\$ 194</u>	<u>\$ 117</u>	<u>\$ 4,989</u>	<u>\$297,028</u>	<u>\$ 622,289</u>

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 12 through 14.

MONTANA STATE LIBRARY
NOTES TO THE FINANCIAL SCHEDULES
JUNE 30, 1986 AND 1987

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

The state of Montana uses the modified accrual basis of accounting which is described in the Montana Operations Manual.

Under the modified accrual basis of accounting, a valid obligation exists when the related liability is incurred except for the following items which are also considered valid obligations under state accounting policy.

- If the appropriation provided funds to complete a given project, the entire amount of a service contract may be accrued even though the services are rendered in fiscal years subsequent to the fiscal year in which the expenditure is accrued.
- The anticipated cost of equipment may be accrued in the fiscal year in which budgeted.
- Goods ordered, but not received as of the fiscal year-end, may be accrued if the purchase order was issued in the fiscal year in which the anticipated expenditure is to be accrued.

Revenues are recorded when they are received in cash, unless susceptible to accrual. Revenues are susceptible to accrual if they are measurable and available to finance expenditures of the current fiscal period. Intergovernmental revenues received as reimbursements are recognized based upon the expenditures recorded. Intergovernmental revenues received but not earned are recorded as deferred revenues.

B. Basis of Presentation

The financial schedules were prepared from the Statewide Budgeting and Accounting System (SBAS) without adjustments. Accounts are organized on the basis of funds according to state law. The following funds are used by the library:

General - accounts for all financial resources except those required to be accounted for in another fund.

Special Revenue - accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. Legislative appropriations are required to spend from this fund. The library accounts for Coal Severance Tax funds distributed to six library federations for the support of key services such as: interlibrary loan of materials, reference and information services, collection of books, and training of staff. This fund also accounts for moneys used for the Blind and Physically Handicapped, developing the Natural Resource Information System, providing services to residents in Montana institutions, and distributing grants for the construction and renovation of libraries throughout the state.

Expendable Trust - accounts for assets held by the library in a trustee capacity or as an agent for individuals, private organizations, other governmental entities or other funds. A legislative appropriation is not required to spend from these funds. The library used the Expendable Trust Fund to account for moneys willed to the Library. The moneys have been used to purchase equipment.

2. ANNUAL AND SICK LEAVE

Employees at the library accumulate both annual and sick leave. Employees are paid for 100 percent of unused annual and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities for annual and sick leave are not reflected in the financial schedules of the Montana State Library. Expenditures for termination pay currently are absorbed in the annual operational costs of the library. At June 30, 1987, the library had a liability of \$47,188 for annual and sick leave.

3. PENSION PLAN

Employees are covered by the Montana Public Employees' Retirement System (PERS). The library's contribution to the plan was \$30,878 in fiscal year 1985-86 and \$31,699 in fiscal year 1986-87.

4. GENERAL FUND BALANCE

The General Fund is a statewide fund. Agencies do not have a separate General Fund since their only authority is to pay obligations from the statewide General Fund as long as they stay within their appropriation limits. Thus, on an agency schedule, the beginning and ending fund balance will always be zero for the General Fund.

5. CASH TRANSFER IN

Montana State Library and Department of Revenue share an accounting entity on SBAS to account for the coal severance tax revenue allocated to the library in accordance with section 15-35-108, MCA. The revenue is recorded by the Department of Revenue and appears on its financial schedules. The library's expenditures are reported on its financial schedules. Because SBAS did not reflect a transfer-in during fiscal year 1984-85 for the coal severance tax revenue, the Schedule of Changes in Fund Balances shows a negative fund balance at July 1, 1985. During fiscal years 1985-86 and 1986-87, cash transfers were recorded which increased cash and fund balance in the Special Revenue Fund to properly reflect fund balance at June 30, 1987.

AGENCY RESPONSE

MONTANA STATE LIBRARY



TED SCHWINDEN GOVERNOR

1515 E. 6TH AVENUE

STATE OF MONTANA

(406) 444 3115

HELENA, MONTANA 59620

May 17, 1988

RECEIVED

MAY 19 1988

**MONTANA LEGISLATIVE
AUDITOR**

Scott Seacat
Legislative Auditor
State Capitol
Helena, Montana 59620

Dear Mr. Seacat:

Attached is the response of the State Library Commission to the recommendations of the financial-compliance audit for the two fiscal years ended June 30, 1987.

I would like to take this opportunity to thank you and your staff for the cooperation and consideration shown during this audit.

Sincerely,

A handwritten signature in cursive script, appearing to read "Sara Parker".

Sara Parker
State Librarian

SP:JW:jb

Recommendation #1

Concur. The library is currently obtaining legal assistance to formulate two form contracts. One contract will be for agreements involving amounts of \$15,000 or less. The other contract will be for Title II Construction agreements. Title II contracts are also reviewed by the A&E department. These form contracts will help ensure the library's compliance with the minimum requirements of state policy.

The library will seek legal review of all other contracts over \$15,000.

Recommendation #2

Concur. This error has been duly noted and procedures implemented to prevent a recurrence.

Recommendation #3

Concur. Program Managers have been advised of the problem and will be given specific instructions and training at the time accruals are prepared.

